Part I: Commonwealth Budget Outcome

OVERVIEW

In 2000-01, the Commonwealth general government sector recorded its fourth consecutive underlying cash surplus, and a significantly stronger outcome than was budgeted.

The cash surplus outcome of $5.6 billion was almost $3.4 billion higher than estimated at the 2001-02 Budget. In contrast, the accrual fiscal balance outcome, while also strong, was around $0.5 billion higher than expected.

Table 1: General government sector budget aggregates

	1999-00 Outcome(a)	2000-01 Estimate at 2000-01 Budget	2000-01 Estimate at 2001-02 Budget	2000-01 Outcome
Revenue ($b)	**166.6**	**153.5**	**161.0**	**161.5**
Per cent of GDP	26.5	23.0	24.0	24.1
Expenses ($b)	**154.4**	**150.3**	**157.6**	**156.8**
Per cent of GDP	24.5	22.5	23.4	23.4
Net operating balance ($b)	12.2	3.2	3.5	4.7
Net capital investment ($b)	-1.2	-2.2	-2.0	-1.2
Fiscal balance ($b)	**13.5**	**5.4**	**5.4**	**5.9**
Per cent of GDP	2.1	0.8	0.8	0.9
Underlying cash balance ($b)	**12.7**	**2.8**	**2.3**	**5.6**
Per cent of GDP	2.0	0.4	0.3	0.8
Memorandum item:				
Headline cash balance ($b)	22.2	8.0	8.5	11.3

(a) Expenses and net capital investment have been adjusted compared with the 1999-2000 Final Budget Outcome to reflect the classification of acquisitions of defence weapons platforms as an expense rather than net capital investment (see Box 2 of the 2000-01 MYEFO).

On the revenue side of the budget, stronger corporate profitability in the year to December 2000 resulted in higher than expected company taxation receipts in June 2001. Taxation cash receipts were around $1.4 billion higher than expected with fewer companies than expected choosing to defer payments under the transitional provision laid down for movement to the PAYG system. Accrual taxation revenue was around $0.5 billion above the corresponding estimate at the 2001-02 Budget. In addition, non-tax cash receipts were around $0.3 billion higher than estimated at the 2001-02 Budget.

In relation to expenditure, total operating cash payments in 2000-01 were around $1.2 billion lower than expected, while accrual expenditure (expenses and net capital investment) was broadly in line with expectations. This outcome reflects a number of factors, including the carryover of some cash payments from 2000-01 to 2001-02, lower than expected expenditure on some personal benefit payments, and higher than expected non-cash accrual expenses (such as higher workers compensation and defence superannuation expenses).

Net debt was reduced by $13.8 billion in 2000-01 to $39.3 billion (5.8 per cent of Gross Domestic Product (GDP)). This was a $3.5 billion larger reduction than anticipated at the 2001-02 Budget, reflecting the stronger than anticipated cash outcome.

REVENUE

Total Commonwealth accrual revenue in 2000-01 was $161.5 billion, around $0.5 billion higher than estimated at the 2001-02 Budget. This outcome was due primarily to higher than expected company tax revenue.

In particular, company taxation revenue was boosted by very strong tax balancing payments from companies with income tax years ending 31 December (so called 'early December' balancing companies). The strong balancing payments indicate that these companies recorded higher than previously recognised profits in the year to 31 December 2000, necessitating higher than expected taxation payments in June 2001.[1] Many early December balancing companies are involved in the mining sector and have benefited from stronger trading conditions and a more competitive Australian dollar.

In accrual terms, total company taxation revenue was around $0.4 billion higher than estimated at the 2001-02 Budget. However, cash taxation receipts from companies were around $1.5 billion higher than anticipated.

The difference is primarily explained by the fact that the 2001-02 Budget estimates included a specific allowance for stronger company collections to May 2001 in both accrual and cash terms that, in the final event, was realised in cash terms only.

In particular, analysis of final taxation data now shows that a significant proportion of the additional strength in company cash receipts to May 2001 was due to companies not taking advantage of the ability to defer cash payments under transitional arrangements introduced for the implementation of the new PAYG system.[2] This means that cash payments were being boosted without a corresponding increase in

---

1 In effect, company tax instalment payments made by these companies through the course of the year were insufficient to cover the increase in taxation liabilities resulting from stronger profits, requiring higher tax balancing payments. Balancing payments are usually expected to account for around 10 per cent of a company's tax liability. However, for early December balancing companies, these payments averaged more than twice the expected amount, reflecting stronger trading conditions than anticipated when their instalment rates were initially determined.

2 For more details on the transitional arrangements, see Box 1, pages 5-7, 5-8 of Budget Paper No. 1, *Budget Strategy and Outlook 2001-02*.

accrual revenue. Thus, the gap between accrual and cash revenue was, in effect, $1.2 billion less than estimated at the 2001-02 Budget.

Abstracting from companies, tax revenue was around $50 million higher than the 2001-02 Budget estimate. This reflects stronger than expected revenue from fringe benefits tax and superannuation funds tax, largely offset by lower than expected revenue from total individuals.

Non-tax revenue in 2000-01 was $10.4 billion, broadly in line with the 2001-02 Budget forecast.

Table 2: Commonwealth general government revenue: accrual basis

	2000-01 Estimate at 2001-02 Budget $m	2000-01 Outcome $m
Taxation revenue		
Income tax		
Individuals(a)		
Gross PAYG withholding	74,572	74,161
Gross other individuals	13,400	13,426
less Refunds	11,165	10,989
Total individuals	76,807	76,599
Companies	34,720	35,136
Superannuation funds(b)	5,210	5,286
Other withholding tax(c)	1,430	1,452
Petroleum resource rent tax	2,360	2,388
Total income tax	**120,528**	**120,861**
Indirect tax(d)		
Excise duty		
Petroleum products and crude oil	12,417	12,447
Other excise	6,550	6,572
Total excise duty	18,967	19,019
Customs duty	4,671	4,606
Other indirect taxes(e)	2,009	1,976
Total indirect tax	**25,647**	**25,601**
Fringe benefits tax(f)	3,290	3,456
Agricultural levies	556	451
Other taxes	671	788
Total tax revenue	**150,692**	**151,156**
Non-tax revenue	10,337	10,369
Total revenue	**161,029**	**161,526**

(a) Includes Medicare levy revenue.
(b) Includes the superannuation contributions surcharge.
(c) Includes amounts withheld for failure to quote a Tax File Number (TFN) or an Australian Business Number (ABN).
(d) Indirect taxes exclude Goods and Services Tax (GST) and surcharge revenue raised by the Commonwealth on an agency basis and paid to the States and Territories as Revenue Replacement Payments (RRPs) in 2000-01. While RRPs were abolished on 1 July 2000, the final RRP liability was collected and paid to the States in 2000-01.
(e) Includes the wine equalisation tax, luxury car tax and the final wholesale sales tax liability.

(f) Consistent with Government Finance Statistics (GFS) reporting standards, excludes fringe benefits tax collected from Commonwealth government agencies ($285 million in 2000-01).

EXPENSES

Total accrual expenses were $156.8 billion in 2000–01, a reduction of $0.8 billion from the estimate provided in the 2001–02 Budget. This reduction largely results from:

- the movement of around $630 million of Defence expenditure from expenses to net capital investment, reflecting lower than forecast consumption of inventory (see offsetting increase under net capital investment).[3] In net terms, this movement has had no effect on the cash or accrual aggregates;
- lower than forecast personal benefit payments ($499 million), reflecting a lower than anticipated final number of Newstart allowance and Aged Pension customers, and a lower take-up of Aged Persons Savings Bonus and Self-funded Retirees Supplementary Bonus payments relative to expectations at the 2001-02 Budget;
- the slippage of $187 million of transport grant expenses from 2000-01 to 2001-02, due to a change in the grant eligibility criteria for a number of programmes including the Alice Springs to Darwin Rail Link and Roads to Recovery;
- the slippage of $151 million of payments to former POWs, civilian detainees or their surviving widows/ers (a 2001-02 Budget measure) from 2000-01 to 2001-02, as a result of not all payments being finalised in 2000-01. The majority of these payments have now been made;
- lower than forecast expenditure relating to the level of unauthorised boat arrivals and subsequent detention costs ($109 million); and
- lower expenditure for Residential Aged Care Subsidies ($108 million), mainly reflecting lower than anticipated dependency levels of claimants.

These amounts are partly offset by:

- an increase in the amount of general budget assistance paid to the States and Territories ($438 million) and recorded as a Commonwealth expense, accounting for the GST as a State tax. This increase was largely due to final GST collections being $403 million lower than expected at the 2001-02 Budget, almost entirely due to higher GST refunds being made by the Australian Taxation Office (ATO) in the 2000-01 year. Abstracting from refunds, underlying GST revenue was in line with budget expectations, with accrual GST revenue only $26 million lower than anticipated (see Attachment A to Part I for more detail);

---

3 Consumption of inventory is recognised as an expense and a reduction in assets. Therefore, lower inventory consumption is reflected as a reduction in expenses, matched by an increase in net capital investment.

- an increase in accrued superannuation interest expenses ($380 million), following an actuarial review of military superannuation liabilities; and
- the recognition of an expense for credits issued but not used in 2000-01 under the Automotive Competitiveness and Investment Credit Scheme ($203 million).

Table 3 provides information on GFS general government expenses by function.

Table 3: Commonwealth general government expenses by function

	2000-01 Estimate at 2001-02 Budget $m	2000-01 Outcome $m
General public services		
Legislative and executive affairs	695	691
Financial and fiscal affairs(a)	3,066	3,980
Foreign economic aid	2,021	1,978
General research	1,568	1,523
General services	575	739
Government superannuation benefits	1,477	1,453
Defence	11,599	11,360
Public order and safety	1,592	1,559
Education	10,998	10,966
Health	25,162	25,242
Social security and welfare	67,688	66,898
Housing and community amenities	1,811	1,763
Recreation and culture	2,150	2,043
Fuel and energy	2,729	2,614
Agriculture, fisheries and forestry	1,924	1,718
Mining and mineral resources (other than fuels), manufacturing and construction	881	821
Transport and communications	1,959	1,724
Other economic affairs		
Tourism and area promotion	130	125
Labour and employment affairs	2,745	2,527
Other economic affairs	438	411
Other purposes		
Public debt interest	5,672	5,836
Nominal superannuation interest	4,480	4,878
General purpose inter-government transactions	5,395	5,809
Natural disaster relief	116	92
Contingency reserve	670	0
Asset sales	34	31
Total GFS expenses	**157,573**	**156,783**

(a) The increase in expenses in the *Financial and fiscal affairs* category (within the *General public services* function) since the 2001-02 Budget partly reflects the movement of around $0.6 billion of expenses relating to HIH policy holder hardship assistance (a 2001-02 Budget measure) from the *contingency reserve* (within the *Other purposes* function).

NET CAPITAL INVESTMENT

Net capital investment has increased by $0.8 billion since the estimate at the 2001-02 Budget, largely due to lower than forecast Defence inventory consumption ($630 million). As discussed in the expenses section, this increase in net capital investment is matched by a decrease in expenses, with no net effect on the cash or accrual fiscal aggregates.

Table 4: Estimates of Commonwealth net capital investment by function

	2000-01 Estimate at 2001-02 Budget $m	2000-01 Outcome $m
General public services	-80	-82
Defence	-403	325
Public order and safety	59	26
Education	0	-3
Health	35	20
Social security and welfare	19	50
Housing and community amenities	-189	-119
Recreation and culture	-106	-64
Fuel and energy	3	2
Agriculture, forestry and fishing	-5	-1
Mining and mineral resources (other than fuels); manufacturing and construction	31	31
Transport and communications	-1,345	-1,355
Other economic affairs	-5	-10
Other purposes	17	12
Net capital investment	**-1,968**	**-1,168**

NET DEBT AND NET WORTH

The level of Commonwealth general government net debt has continued to fall, to $39.3 billion at the end of 2000–01 from a peak in 1996-97 of $96.3 billion. The Government has repaid $57.0 billion of net debt since 1996-97. The fall in net debt in 2000-01 was $3.5 billion greater than was estimated at the 2001–02 Budget, reflecting the higher than anticipated cash surplus outcome. Net debt has fallen to 5.8 per cent of GDP from a high of almost 20 per cent in 1995–96 and 8.4 per cent in 1999-2000.

Commonwealth general government net worth fell from -$39.9 billion in 1999-2000 to -$41.2 billion in 2000-01. This reduction was due mainly to a fall in the Telstra share price over the year to 30 June 2001, reducing the market value of the Commonwealth's shareholding, partly offset by the GFS net operating surplus of $4.7 billion in 2000–01.

Net interest outlays in 2000-01 were $174 million higher than was anticipated at the 2001-02 Budget. The higher net interest outlays, despite a greater than expected fall in net debt, arises primarily due to a delay in the timing of early redemptions of Commonwealth bonds compared with the budget estimates. Nevertheless, the better than anticipated reduction in net debt achieved in 2000-01 is expected to result in lower net interest outlays in future years.

Table 5: Commonwealth general government sector net worth, net debt and net interest outlays

	2000-01 Estimate at 2001-02 Budget $b	2000-01 Outcome $b
Financial assets	105.3	107.1
Non-financial assets	31.3	34.2
Total assets	**136.6**	**141.3**
Total liabilities	**169.2**	**182.5**
GFS net worth	**-32.7**	**-41.2**
Net debt(a)	**42.8**	**39.3**
Per cent of GDP	6.4	5.8
Net interest outlays(b)	**4.9**	**5.1**
Per cent of GDP	0.7	0.8

(a) Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowings, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

(b) Commonwealth cash interest payments less cash interest receipts.

CASH FLOWS

In 2000-01, the underlying cash balance was a surplus of $5.6 billion, almost $3.4 billion higher than estimated at the 2001-02 Budget. The higher than anticipated outcome was primarily the result of greater operating cash receipts and lower operating cash payments.

Table 6: Summary of Commonwealth general government sector cash flows

	2000-01 Estimate at 2001-02 Budget $b	2000-01 Outcome $b
Cash receipts(a)		
Operating cash receipts	156.6	158.5
Capital cash receipts(b)	2.5	2.3
Total cash receipts	159.1	160.8
Cash payments(a)		
Operating cash payments	155.1	153.9
Capital cash payments(c)	1.8	1.2
Total cash payments	156.9	155.1
plus Finance leases and similar arrangements	0.0	-0.1
Underlying cash balance	**2.3**	**5.6**
Per cent of GDP	0.3	0.8
Memorandum items:		
Net cash flows from investments in financial assets for policy purposes(d)		
Major asset sales	6.3	6.3
less Other net advances paid	0.1	0.7
Headline cash balance	**8.5**	**11.3**

(a) Cash receipts and payments are derived from the accrual Australian Bureau of Statistics (ABS) GFS framework. Due to data source and methodological changes associated with the change to accrual budgeting, the cash receipts and payments presented in this table are not directly comparable with data prior to the 1999-2000 Budget calculated under the cash budgeting framework.
(b) Equivalent to cash receipts from the sale of non-financial assets in the GFS cash flow statement.
(c) Equivalent to cash payments for purchases of new and second-hand non-financial assets in the GFS cash flow statement.
(d) Under the cash budgeting framework, these cash flows were referred to as 'net advances'.

The increase in the underlying cash balance from the estimate provided at the 2001-02 Budget exceeded the upward revision to the fiscal balance, due largely to several variations with significantly different impacts on the cash and accrual budget aggregates. These variations are outlined below.

- In cash terms, company taxation receipts were $1,472 million higher than anticipated at the 2001-02 Budget, compared with a stronger accrual outcome of $416 million. This difference is explained by lower than expected take-up of the PAYG transitional arrangements (see the revenue section for more details).

- A $544 million revision in respect of the Student Financial Supplement Scheme, resulting in an increase in non-tax cash receipts and the underlying cash balance. There has been no impact on the accrual figures for this scheme.

- The $380 million increase in military superannuation liability expenses and $203 million increase in expenses under the Automotive Competitiveness and Investment Scheme mentioned previously are accrual variations only, with no impact on the underlying cash balance.

- Lower than forecast cash payments of $230 million as a result of a change in the recognition of multi-year health grants. This revision had no impact on accrual expenses.

The headline cash surplus was also greater than forecast at the 2001-02 Budget, but not by as much as the increase in the underlying cash balance. This largely reflects the revision to the Student Financial Supplement Scheme, which has no impact on the headline cash balance (but improved the underlying cash balance as described above) because the increase in non-tax 'cash receipts' was exactly offset by an increase in 'other net advances paid'.

ACCOUNTING FOR GST AND BUDGET ASSISTANCE TO STATES

This attachment outlines how Goods and Services Tax (GST) transactions and budget assistance to the States are accounted for in the Final Budget Outcome and the impact of these transactions on the budget aggregates (Part I).

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA), all GST receipts are appropriated to the States and Territories and thus are not available for expenditure by the Commonwealth. As such, the GST is a State tax, with the Commonwealth acting as the States' agent in the collection of the tax.

The Australian Taxation Office, on behalf of the States, collects GST and the full amount is passed to the States. The States are billed for this service and pay a sum to the Commonwealth to cover the ATO costs of collecting the GST. Transactions where the Commonwealth is only an agent are excluded from its financial statements. Consequently, collections of GST from taxpayers and payments of the GST revenue to the States are not recorded as revenues and expenses of the Commonwealth.

The Commonwealth finalises payment of the annual GST revenue to the States in mid-June based on an estimate of GST collections for the full financial year. As such, the final outcome for GST collections and revenue provision to the States can differ from the estimate made in mid-June. For example, if actual GST collections fall short of the estimate, the Commonwealth will have passed more to the States than the GST revenue outcome. This additional amount passed to the States (effectively an overpayment of the GST revenue provision), is accounted for as an expense of the Commonwealth.

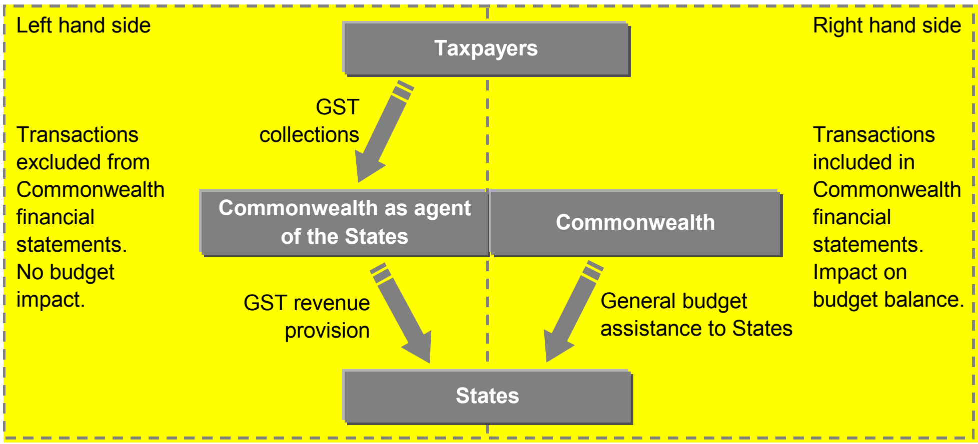
Under the IGA, the Commonwealth also pays Budget Balancing Assistance (BBA) grants to the States to ensure that they are no worse off under the new financial arrangements than under former arrangements.[4] BBA grants are recorded as expenses of the Commonwealth.

For the purposes of explaining budget impacts in a States' agent accounting framework, BBA grants and overpayment of the GST revenue provision (as the two transactions that are recorded as Commonwealth expenses) have been summed and

4 BBA is calculated as the Guaranteed Minimum Amount (GMA, the no worse off funding benchmark under the new arrangements) less the GST revenue provision (at the time of the mid-June determinations of the GMA and GST revenue provision).

given the notional accounting title of 'general budget assistance to the States'.[5] General budget assistance to the States is shown on the right hand side of Figure 1.

Figure 1: GST and budget assistance transactions



General budget assistance to the States in 2000-01 was $438 million greater than the 2001-02 Budget estimate, reducing both the fiscal and underlying cash balances. This is due to two factors: BBA grants were $140 million lower than the budget estimate[6] and there was a $578 million 'overpayment' of the GST revenue provision to the States (reflecting actual cash collections of GST falling $578 million below the mid-June determination of the Commissioner of Taxation (and $403 million below the 2001-02 Budget forecast for 2000-01)).

The shortfall in GST cash collections was almost entirely due to higher than anticipated GST cash refunds in 2000-01 (reducing net GST cash receipts). In underlying terms, GST revenue was in line with expectations, with the accrual GST revenue outcome for 2000-01 only $26 million below the 2001-02 Budget estimate for 2000-01.

In Part II the accounts are presented including GST as Commonwealth revenue.

The two different accounting approaches (applied in Part I and Part II respectively) result in slightly different net impacts on the fiscal balance in 2000-01. In Part I, the total net impact on the fiscal balance equals general budget assistance to the States. In Part II, the fiscal balance impact is the difference between GST revenue and the Guaranteed Minimum Amount (GMA) paid to the States in 2000-01 (comprising BBA

---

5 The term 'general budget assistance to the States' explains aggregate changes in Commonwealth expenses under a States' agent accounting arrangement and does not appear in the IGA, which governs the actual payments from the Commonwealth to the States.

6 The $140 million decline in BBA was the result of a $175 million increase in the GST revenue provision estimate being partly offset by a $35 million increase in the GMA at the time of the mid-June determination.

grants and GST grants made under the Commissioner of Taxation's mid-June determination of cash GST receipts). This results in the fiscal balance outcome shown in the Government Finance Statistics (GFS) general government operating statement in Part II being $63 million greater than the fiscal balance reported in Part I and elsewhere in the Final Budget Outcome.

The $63 million difference in the fiscal balance also flows through to GFS net worth, resulting in GFS net worth in Part II being $63 million greater than GFS net worth reported in Part I and elsewhere.

The different accounting approaches have the same net impact on cash flows. Therefore the underlying cash balance is the same whether it is calculated using the State tax or Commonwealth tax approach.

EXTERNAL REPORTING STANDARDS

The Commonwealth *Charter of Budget Honesty Act 1998* requires that the Final Budget Outcome be based on external reporting standards, and that departures from applicable external reporting standards be identified.

The major external standards used in the budget are the Australian Bureau of Statistics (ABS) accrual Government Finance Statistics (GFS) framework and Australian accounting standards, including *Australian Accounting Standard No. 31 Financial Reporting by Governments* (AAS31).

The GFS framework requires that flows and stocks be valued at current market prices (or where these are not observable, a suitable proxy indicator). While this is the case for flows in the operating statement and the cash flow statement, not all assets and liabilities in the GFS balance sheet are currently valued at current market prices. This is principally because Australian accounting standards allow reporting entities to elect to value their assets at either cost or fair value (current market value). The accounting profession is considering general valuation issues relating to liabilities. In the early years of accrual budgeting the focus has been on preparing robust GFS operating and cash flow statements. Refinements to the GFS balance sheet valuations of assets and liabilities will be considered over time, in consultation with the ABS, as the new framework is bedded down.

The draft ABS GFS publication (*Australian System of Government Finance Statistics: Concepts, Sources and Methods* Cat. No. 5514.0) requires that provisions for bad and doubtful debts be excluded from the balance sheet. This treatment has not been adopted because excluding such provisions would overstate the value of Commonwealth assets in the balance sheet (and would therefore be inconsistent with the market valuation principle).

The Commonwealth revenue and expenses outcomes in Parts I and III and Appendices B and C do not include goods and services tax (GST) collections and equivalent payments to the States. Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA), all GST receipts are appropriated to the States and Territories and thus are not available for expenditure by the Commonwealth. Because the Commonwealth collects GST as an agent for the States and Territories, GST receipts are not shown as Commonwealth revenue. Outcomes of GST receipts are provided in Table 11 of Part II.

In order to ensure the reporting of reliable budget estimates and outcomes, taxation revenue is recognised the earlier of when an assessment of a tax liability is made or cash payment is received by the Australian Tax Office (ATO) or the Australian Customs Service (ACS). Accordingly, for most categories of taxation revenue, there is a short lag between when the revenue is recognised and the time at which the underlying income (or economic activity) giving rise to the tax liability occurs. Longer lags, of up to a year, occur for some elements of company and superannuation funds taxation.

Additional information on the external reporting standards and budget concepts is provided in Appendix A.